

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 USIA-06
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-----015273 081129Z /20

P 080835Z MAR 78

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 7301

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 3039

E.O. 11652: GDS

TAGS: EFIN, ID

SUBJECT: INFORMATION ON GOI DEFENSE BUDGET FOR CONGRESSIONAL HEARINGS

REF: (A) STATE 054259, (B) JAKARTA A-18, (C) JAKARTA 1874

1. SUMMARY: DURING THE FIVE YEARS OF REPELITA II THE DEFENSE AND SECURITY SECTOR HAS BEEN ALLOCATED A RELATIVELY SMALL PERCENTAGE OF THE INDONESIAN DEVELOPMENT BUDGET WITH A HIGH OF 4.7 PERCENT IN FY 1978/79 AND A LOW OF 2.2 PERCENT IN 1976/77. LARGELY BECAUSE OF PERSONNEL COSTS, THE DEFENSE AND SECURITY SHARE OF THE TOTAL BUDGET HAS BEEN SOMEWHAT LARGER. THERE ARE NON-BUDGETARY FUNDS ALSO USED BY THE ARMED FORCES, ALTHOUGH IT IS IMPOSSIBLE TO MAKE AN ACCURATE ESTIMATE AS TO THE SIZE OF THESE FUNDS. THE SUHARTO GOVERNMENT HAS OVER THIS PERIOD DEVOTED OVER HALF OF ITS BUDGETARY RESOURCES TO ECONOMIC DEVELOPMENT, AND DEFENSE HAS BEEN RELEGATED TO A BACK SEAT DURING THE LAST TEN YEARS. WE EXPECT TO SEE DEFENSE SPENDING INCREASED SOMEWHAT OVER THE NEXT FOUR YEARS, BUT NOT AT THE EXPENSE OF ECONOMIC DEVELOPMENT, AND ONLY AT A LEVEL THAT THE INDONESIAN ECONOMY CAN SUPPORT. END SUMMARY.

2. GOI BUDGET, DEFENSE SPENDING AND GNP DURING REPELITA II:

	1974/75	1975/76	1976/77	1977/78	1978/79
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TB

(US\$M)	4,635.68	6,901.05	8,483.37	10,234.47	11,625.02
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TDB	720.10	1,132.56	1,260.16	1,513.47	1,625.00
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TDB/TB

PERCENT	15.5	16.4	14.9	15.0	14.6
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DEV B 2,328.20 3,367.80 4,627.23 5,223.86 5,910.35

DDB 54.70 86.30 102.41 134.94 278.34

DDB/DB

PERCENT 2.3 2.6 2.2 2.5 4.7

GNP CY74 CY75 CY76 CY77 CY78

24,725.3 29,125.3 36,294.0 43,417.0 51,101.8

TDB/GNP

PERCENT 2.91 3.89 3.47 3.48 3.31

3. THE ABOVE TABLE SHOWS THE TOTAL GOI BUDGET (TB), THE TOTAL GOI DEFENSE BUDGET (TDB), THE TOTAL DEFENSE BUDGET AS A PERCENTAGE OF THE TOTAL BUDGET (TDB/DB), THE DEVELOPMENT BUDGET (DEV B), THE DEFENSE DEVELOPMENT BUDGET (DDB), THE DEFENSE DEVELOPMENT BUDGET AS A PERCENTAGE OF THE DEVELOPMENT BUDGET (DDB/DB), GNP, AND THE DEFENSE BUDGET AS A PERCENTAGE OF GNP (TDB/GNP) FOR THE FIVE YEARS OF INDONESIA'S SECOND FIVE-YEAR PLAN (REPELITA II) 1974-79. THE FIGURES ARE ALL FROM OFFICIAL GOI DOCUMENTS EXCEPT FOR GNP WHICH IS FROM IMF ESTIMATES THROUGH 1976; FOR 1977 AND 1978 THE GNP FIGURES ARE ESTIMATES DERIVED FROM 1976 GNP PLUS INFLATION AND 7 PERCENT REAL GROWTH.

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4. THESE FIGURES ILLUSTRATE THAT THE DEFENSE AND SECURITY SECTOR HAS TRADITIONALLY TAKEN A SMALL SHARE OF THE INDONESIAN DEVELOPMENT BUDGET (A HIGH OF 4.7 PERCENT IN 1978/79 AND A LOW OF 2.2 PERCENT IN 1976/77). THE PERCENTAGE OF THE TOTAL BUDGET FIGURE (DEVELOPMENT PLUS ROUTINE EXPENDITURES) IS SOMEWHAT LARGER (A LOW OF 14.6 PERCENT IN 1978/79 AND A HIGH OF 16.4 PERCENT IN 1975/76, BASICALLY, WE BELIEVE, BECAUSE OF PERSONNEL COSTS. AS A PERCENTAGE OF GNP, DEFENSE SPENDING IS MODEST AND WELL WITHIN GOI CAPABILITIES.

5. IT SHOULD BE NOTED, HOWEVER, THAT THE OFFICIAL GOI BUDGET DOES NOT REFLECT ALL SPENDING ON THE ARMED FORCES AND A SIGNIFICANT PROPORTION OF TOTAL SPENDING IS BELIEVED TO BE DERIVED FROM "EXTRA BUDGETARY" SOURCES. SOME OF THESE EXTRA BUDGETARY FUNDS DERIVE FROM THE WIDESPREAD NETWORK OF MILITARY OWNED OR CONTROLLED BUSINESS ENTERPRISES AND COMMERCIAL OPERATIONS. OTHER FUNDS HAVE TRADITIONALLY BEEN RAISED THROUGH UNOFFICIAL TAXES AND ASSESSMENTS. NO ESTIMATE OF THE MILITARY'S TOTAL EXTRA BUDGETARY REVENUE IS AVAILABLE, AND EVEN A ROUGH ESTIMATE IS IMPOSSIBLE TO OBTAIN BECAUSE OF VARIETY AND DISPERSAL

OF ACTIVITIES AT ALL LEVELS, THEIR FREQUENTLY UNOFFICIAL OR SEMIA-OFFICIAL NATURE, AND THE LACK OF ANY CENTRAL CONTROL MECHANISM. IT IS POSSIBLE THAT, BECAUSE OF THE CURRENT GOI DRIVE TO ELIMINATE UNOFFICIAL LEVIES, OPSTIB, AND BECAUSE OF THE RELATIVELY STRINGENT FINANCIAL CONTROLS PLACED ON THE STATE-OWNED OIL COMPANY, PERTAMINA, A LARGER PERCENTAGE OF MILITARY SPENDING IS NOW BEING DERIVED FROM OFFICIAL GOVERNMENT FUNDING, AND THIS IN TURN MAY ACCOUNT FOR A PART OF THE RELATIVELY LARGE INCREASE IN DEFENSE DEVELOPMENT BUDGET FROM \$134.94 MILLION IN 1977/78 TO \$278.34 MILLION IN 1978/79. IT SHOULD NOT BE OVERLOOKED, HOWEVER, THAT THE TOTAL DEFENSE BUDGET AS COMPARED TO THE GNP REMAINS LOW AND IN 1978/79 ACTUALLY DECLINED AS A PERCENTAGE OF GNP.

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6. MORE IMPORTANT REASONS FOR ENLARGED DEFENSE DEVELOPMENT BUDGET ARE THE GOI'S CURRENT EFFORTS TO BEGIN REPLACING OBSOLESCEMENT WEAPONS SYSTEMS AND TO STANDARDIZE ITS EQUIPMENT INVENTORY. THESE EFFORTS INCLUDE A VARIETY OF MODEST PURCHASES FROM THIRD COUNTRIES SUCH AS PATROL SHIP KILLERS (PSK'S) FROM SOUTH KOREA, SEVERAL SMALL FRIGATES FROM THE NETHERLANDS, TWO SUBMARINES FROM WEST GERMANY, AND LIGHT WEAPONS AND AMMUNITION FROM SEVERAL OTHER COUNTRIES. IN ADDITION, THE GOI IS CONSIDERING THE PURCHASE OF APPROXIMATELY 300 ARMORED PERSONNEL CARRIERS (APC'S) WITH THE US M113 AS A PRIME CANDIDATE. THE GOI IS ALSO SEEKING TO PURCHASE THROUGH FMS CREDITS/ SALES REPLACEMENT AND MODERNIZATION OF ITS SMALL FLEET

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ACTION EA-12

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L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 USIA-06
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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 7302

C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 3039

OF FIGHTER/INTERCEPTORS AND AN M-16 CO-PRODUCTION FACILITY FROM THE U.S. THE AIRCRAFT ARE INTENDED TO REPLACE A SQUADRON OF F-86 INTERCEPTORS WHICH IS NOW LARGELY INOPERABLE. THE M-16 FACILITY WILL HELP THE GOI STANDARDIZE ITS BASIC SMALL ARMS FOR THE INDONESIAN SOLDIER.

7. FOR REASONS CITED PARAS 5 AND 6, THE GOI DEFENSE DEVELOPMENT BUDGET WILL CONTINUE TO BE AT A SOMEWHAT HIGHER LEVEL OVER THE NEXT FEW YEARS THAN IN THE EARLY YEARS OF REPELITA II, PERHAPS AT SOMETHING ON THE ORDER OF THE 4.7 PERCENT OF THE DEVELOPMENT BUDGET IT WILL TAKE IN FY78/79. THE ARMED FORCES HAVE NOT ADVANCED AS RAPIDLY IN TERMS OF MODERNIZATION AND DEVELOPMENT AS SOCIAL AND ECONOMIC PROGRAMS WHICH HAVE BEEN ESTABLISHED AS THE NATIONAL PRIORITIES. THE EAST TIMOR FIGHTING AND THE CONTINUING HOSTILITIES IN INDOCHINA HAVE BROUGHT HOME TO INDONESIA AN INCREASED AWARENESS OF ITS NEED TO UNILATERALLY ASSUME A POSITION OF GREATER DEFENSE. IN VIEW OF THE COUNTRY'S SIZE, ITS VULNERABILITY TO INFILTRATION, AND THE ABOLITION OF MUCH OF ITS EQUIPMENT INVENTORY, THE GOI HAS DETERMINED TO EMBARK ON A MAJOR, ALBEIT AT A STILL MODEST DOLLAR COST, RENOVATION OF ITS EQUIPMENT INVENTORY. ANOTHER FACTOR IN THE QUESTION OF INCREASED DEFENSE SPENDING BY THE GOI IS THE CESSATION OF US MAP WHICH, ALTHOUGH MODEST, HAS

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AVERAGED APPROXIMATELY \$16.0 MILLION ANNUALLY FROM US FY74 TO US FY78. WE BELIEVE THAT ITS PLANNED FORCE AND EQUIPMENT LEVELS ARE REALISTIC AND WITHIN THE SCOPE OF THE INDONESIAN ECONOMY'S ABILITY TO SUPPORT.

MASTERS

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